**The Final Carbon Fatcat:**

**How Europe’s cement sector benefits and the climate suffers from emissions trading flaws**

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[Sandbag’s new report](https://sandbag.org.uk/site_media/uploads/The_Final_Carbon_Fatcat_Full_Report.pdf) reveals the European cement sector is reaping huge financial benefits from climate laws, adding to company profits and encouraging the import of emissions from other countries.

Perverse incentives in the design of the EU’s ‘flagship’ climate change policy, **the Emissions Trading Scheme (ETS), have increased cement sector emissions by more than 15 million tonnes of CO2: if the cement sector had been outside the ETS, its emissions would be lower.** While the surplus in emissions allowances that have accrued to most industrial sectors are now declining, in the cement sector the surpluses continue to grow.



Five “Carbon Fat Cat Companies” from the cement sector have collectively received nearly €1 billion worth of spare EU allowances (EUAs) for free between 2008 -2014. As the number of free allowances available to all industry is fixed, over-allocation to cement companies is reducing the volume that can be allocated to other sectors that may need more protection.

These facts highlight the urgent need to reform the rules governing the ETS in the ongoing reform of the Directive. A low emissions cement sector is possible, but to incentivise it requires that we:

* Secure a higher carbon price
* End the over-allocation of allowances
* Provide new support for innovative processes and Carbon Capture Utilisation & Storage

Key findings:

**Free allocation of ETS allowances exists to protect against potential ‘carbon leakage’.[[1]](#footnote-1) However, the rules are creating perverse effects. The ETS from 2008-2014 has inflated cement sector emissions through the import of emissions from other countries.**

Under the current rulesproducers lose 50% of their free carbon allocation if they produce less than 50% of their historic activity levels. In the case of the cement sector these perverse incentives are linked to the production of clinker – an intermediary material of the cement-making process with a very high carbon intensity. Yearly production levels of clinker can affect the number of allowances an installation receives for free.

We show through data-driven analysis that this has created perverse incentives for installations to over-produce in order to avoid losing millions of euros worth of allowances. This creates three undesirable outcomes:

* **The *lowest* efficiency producers are maintaining output higher than they otherwise would in order to receive free allowances**. This in turn reduces the running time of *higher* efficiency producers, increasing overall CO2 emissions. In 2013 low-efficiency kilns continued to produce 20 million tonnes of clinker, despite nearly 50 million tonnes of unused capacity existing among high-efficiency kilns. Cement manufacturers seem to be spreading production across as many installations as possible to gain maximum free allocation for each one of them, with the result that emissions increase.
* **In some major producing countries cement is being made with increasing proportion of clinker, which increases emissions.** In spite of the average clinker-to-cement ratio in Europe being 74%, during the existence of the ETS this number rose to 75% in Italy, and 80% in Spain.
* Surplus allocation subsidises clinker production to such a degree that between 2005 and 2013 **Europe has turned from an importer to an exporter of clinker**. Rather than causing emissions to leak and industry to move abroad the opposite has occurred –emissions have increased at home. In 2012, the first year affected by these perverse incentives, European clinker exports stood at 6.4 million tonnes, nearly 4 times the level from 2011 – and a further increase to 7.8 million tonnes was recorded in 2013.

**We crown the Cement sector the new “ETS Fat Cat”**

Relative to its emissions, the burgeoning surplus of allowances for cement now dwarfs the steel sector’s, the previous largest holder, as of 2013. This over-allocation is not only increasing the EU ETS windfall for the cement sector, but is also fostering complacency about decarbonisation.

* From 2008 to 2014, the cement sector received enough surplus allowances to cover 2.2 years of additional emissions without buying a single allowance.
* Even though the 3rd phase of the EU ETS introduced measures to rein in over-allocation, the cement sector’s surplus will, continue to rise to 2020 when it will be equivalent in volume to 2.5 years’ of full emissions (assuming activity stays at 2014 levels).
* This expanding surplus is fed by allowances the sector receives as protection against carbon leakage.

**We find no evidence that the ETS has directly contributed to decarbonisation in the cement sector**.

* The use of cleaner fuels, like biomass, has increased. But we show this is mainly due to national policies and the uptake of this remains very low in many countries.

**We make proposals to urgently change the allocation rules, eliminate perverse incentives and avoid over-allocation.** This means closing the loophole which allows installations to keep 100% of free allocation even if their production dropped by 49%. It also means changing the carbon leakage rules to from the current all-or-nothing system, to avoid disproportionate carbon leakage protection.

**How can we cut cement sector emissions?**

First, ensure a higher carbon price. This helps not only quick wins, but encourages long-term investment, and makes many of the other recommendation suggested here cheaper. Further recommendations are detailed in the report, and include more funding to finance deep-decarbonisation options like Carbon Capture and Storage through the Innovation Fund and other EU-level support channels, as well as recycling ETS auction revenues at the level of Member States.

**Alex Luta, Campaigner & Policy Analyst at Sandbag**, commented:

“*The EU ETS, far from decarbonising the cement sector, is actually leading to higher emissions. Substantial changes are urgently needed. The best thing to do would be to have more ambitious climate targets and a higher carbon price. Policymakers should eliminate perverse incentives rewarding over-production with free allocation. Cement must no longer more allowances than it needs relative to other sectors; instead, it should receive substantial support for the development of deep-decarbonisation technologies*.”

[Read the report here](https://sandbag.org.uk/site_media/uploads/The_Final_Carbon_Fatcat_Full_Report_1.pdf)

***Register for the European Parliament event on Wednesday 16th March, 13.00,*** [***here***](http://goo.gl/forms/W7Bc0UpGlw)***.***

Speaker details:

13:00 Welcome by Mr Peter Liese MEP, EPP

13:10 Alex Luta, Sandbag

13:25 Claude Loréa, CEMBUREAU

13:40 Donal O'Riain, Ecocem

13:55 Rob Van der Meer, HeidelbergCement

14:10 Panel Discussion and Q&A

ENDS

**Notes to editors**

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| Figure 1: Expected development of allowance surpluses for major industrial sectors until the end of Phase 3. | Figure 2: Estimated scale of allowance surpluses by end of Phase 3 for the five largest cement manufacturers of 2014. |
| Source: EUTL (Sandbag calculations) | Source: EUTL (Sandbag calculations) |

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| --- | --- | --- | --- | --- |
| Company | 2014 cumulative surplus | Value  (March 9, 2016) | 2014 emissions | Surplus relative to 2014 emissions |
| Mill. EUAs | Mill. EUR | Mill. tonnes | % |
| Lafarge-Holcim | 49.8 | 299.7 | 18.2 | 274% |
| Heidelberg-Italcementi | 45.8 | 275.5 | 28.1 | 163% |
| CRH | 31.9 | 191.8 | 10.3 | 310% |
| Cemex | 26.2 | 157.5 | 8.0 | 327% |
| Buzzi Unicem | 10.4 | 62.5 | 7.3 | 142% |

Table 1: The 5 cement companies with the largest surplus as of 2014.

Source: Source: EUTL (Sandbag calculations)

1. ‘Carbon leakage’ is the theory that a carbon price in Europe will lead to industries moving to other countries where they don’t have to pay for their pollution. With the EU carbon price currently at €5 per tonne, there is no evidence that carbon leakage is occurring or has occurred under the ETS. http://ec.europa.eu/clima/policies/ets/cap/leakage/docs/cl\_evidence\_factsheets\_en.pdf [↑](#footnote-ref-1)